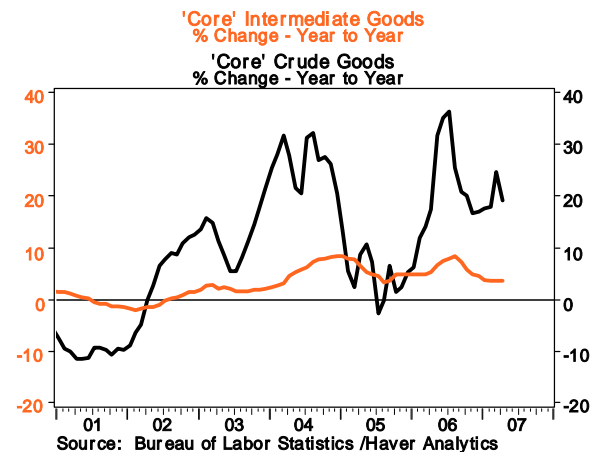
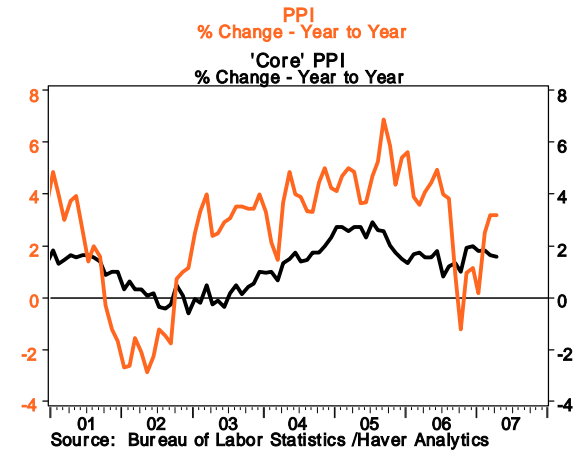


APRIL PPI

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- The Producer Price Index (PPI) increased 0.7% in April versus a consensus expected gain of 0.6%. The PPI is up 3.2% in the past twelve months and has climbed at an annual rate of 12.8% in the past three months.
- All of the PPI increase in April was due to food and energy prices, which rose 0.4% and 3.4%, respectively. The core PPI was unchanged versus a consensus expected 0.2% gain. The core PPI is up 1.6% in the past year and up at an annual rate of 1.5% in the past three months.
- Consumer goods prices increased 0.9% in April and are up at an annual rate of 16.6% in the past three months. Capital equipment prices rose 0.1% and are up 1.8% in the past year.
- Core intermediate goods prices (ex-food and energy) increased 0.8% in March and are up 3.6% versus last year. Core crude prices increased 0.4%, are up at a 51.9% annual rate the past three months, and are up 19.0% versus a year ago.

Implications: Despite the benign data on core PPI we are not pleased with today's inflation report. Core inflation is useful when the volatility of food and energy prices goes both ways, up *and* down. But for four years and counting, food and energy prices have been growing faster than other prices. At some point, policymakers have to drop their focus on core prices and look at the overall number. Consumers and businesses still buy food and energy even if these items are not part of the "core." Because of high overall inflation, we still believe the next rate move by the Fed is likely to be up, not down.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Apr-07	Mar-07	Feb-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.7%	1.0%	1.3%	12.8%	10.0%	3.2%
<i>Ex Food and Energy</i>	0.0%	0.0%	0.4%	1.5%	3.2%	1.6%
Food	0.4%	1.4%	1.9%	15.4%	12.7%	7.8%
Energy	3.4%	3.6%	3.5%	50.6%	30.2%	3.5%
Consumer Goods	0.9%	1.4%	1.6%	16.6%	12.2%	3.6%
Capital Equipment	0.1%	-0.1%	0.3%	1.4%	3.2%	1.8%
Intermediate Goods	0.9%	1.0%	1.1%	12.8%	7.8%	3.6%
<i>Ex Food & Energy</i>	0.8%	0.2%	0.2%	4.9%	2.1%	3.6%
Energy	1.3%	4.1%	4.5%	47.5%	28.9%	1.8%
Crude Goods	-1.5%	3.2%	8.9%	50.9%	48.8%	11.3%
<i>Ex Food & Energy</i>	0.4%	7.7%	2.7%	51.9%	29.6%	19.0%
Energy	-4.9%	1.7%	13.7%	46.7%	65.2%	-2.9%

Source: Bureau of Labor Statistics